

Chapter 21

Field Office Overhead Rates

A field office situation exists when a consultant's employees are performing services on a continuous basis for WSDOT and are working in a WSDOT owned facility or company owned office, independent of a local branch or central office.

Since the consultant employees are not working out of their own offices and are not receiving office support in their day to day activities, the hours billed for them do not qualify for the consultants full overhead rate. They do receive an overhead rate that is reduced for the support they receive from WSDOT.

The purpose of the field rate is to pay the consultant for the fringe benefits and home office support they do provide to their field employees. Usually, the field rate includes full fringe benefits plus a minimum amount for home office support.

The WSDOT Audit Office methodology used for establishing field office overhead rates is as follows:

ABC, Inc.
Overhead Schedule
December 31, 1997

	Reported Balance	Ref.	Audit Adjust.	Audited Balance	%	Ref.	Field Rate Allocation Home Overhead	Field Overhead
Direct Labor Base	<u>\$714,300</u>	(C)	<u>(\$ 100)</u>	<u>\$714,200</u>			<u>\$671,800</u>	<u>\$42,400</u>
Overhead Costs								
B&P Costs	\$ 82,500			\$ 82,500	11.55%	(B)	\$ 80,570	1,931
Indirect Labor	436,700			436,700	61.15	(A)	410,760	25,940
Fringe Benefits	364,100			364,100	50.98	(A)	342,472	21,628
Conferences/Seminars	16,000			16,000	2.24	(B)	15,626	374
Indirect Travel	10,900			10,900	1.53	(B)	10,645	255
Office Supplies	49,100			49,100	6.87	(B)	47,951	1,149
Postage/Freight	9,700			9,700	1.36	(B)	9,473	227
Business Taxes	52,000			52,000	7.28	(A)	48,911	3,089
Legal & Accounting	21,000			21,000	2.94	(B)	20,509	491
Profess. Dues & Licenses	9,400			9,400	1.32	(B)	9,180	220
Insurance	13,700			13,700	1.92	(A)	12,886	814
Depreciation	27,400	(D)	(\$1,800)	25,600	3.58	(B)	25,001	599
Legal & Accounting	18,700			18,700	2.62	(A)	17,589	1,111
Recruit/Emp. Morale	8,300	(E,F,G)	(2,100)	6,200	0.87	(B)	6,055	145
Rent	124,900			124,900	17.49	(B)	121,977	2,923
Utilities	16,400			16,400	2.30	(B)	16,016	384
Maintenance/Repairs	12,700			12,700	1.78	(B)	12,403	297
Leased Equipment	79,900	(H)	(3,900)	76,000	10.64	(B)	74,222	1,778
Telephone	36,800			36,800	5.15	(B)	35,939	861
Less: Cost Allocations	<u>(437,500)</u>			<u>-437,500</u>	<u>-61.26</u>	(B)	<u>(427,263)</u>	<u>(10,238)</u>
Total Overhead Costs	<u>\$952,700</u>		<u>(\$7,800)</u>	<u>\$944,900</u>	132.30%	(B)	<u>\$890,922</u>	<u>\$53,978</u>
Overhead Rate	<u>133.38%</u>			<u>132.30%</u>			<u>132.62%</u>	<u>127.31%</u>

References

- (A) Allocates field and home office overhead rates in the same proportion as labor.
 (B) Allocates space costs associated with support labor.
 (C) Overtime premium unallowable per 48 CFR 22.103-2.
 (D) Adjust depreciation to agree with tax return 48 CFR 31.205-11(d)(3).
 (E) Local meals unallowable per 48 CFR 31.205-14 and WSDOT Travel Directive D 13-50.
 (F) Donations unallowable per 48 CFR 31.205-8.
 (G) Advertising unallowable per 48 CFR 31.205-1(d).
 (H) Direct project costs unallowable in overhead per 48 CFR 31.202(a).

Computation of Field Allocation Rates

Allocation A

$$\frac{\text{Direct Field Labor}}{\text{Total Direct Labor}} = \frac{\$42,400.00}{\$714,200.00} = 5.94\%$$

This allocation does not have an affect on the field or home office overhead rates. It was applied to all accounts, the field home office rate would be the same.

This percentage should be applied to expenses common to both field and home office direct labor in equal proportions, i.e., indirect salaries, payroll taxes, group insurance, paid leaves, bonuses, legal, and accounting, etc.

Allocation B

$$\frac{\text{Allocated Support Services (Indirect Salaries x Allocation A)}}{\text{Home Office Direct Labor + Indirect Salaries}} = \frac{\$436,670.00 \times 5.94\%}{\$671,800.00 + \$436,670.00} = 2.34\%$$

This rate allocates to the field the "space costs" associated with supportive service labor.

This rate should be applied to rent, supplies, utilities, etc.

Data used in the above calculations:

Direct Field Office Labor	\$ 42,400
Direct Home Office Labor	\$671,800
Total Direct Labor	\$714,200
Indirect Labor	\$436,700

Computation of Field Allocation Rates

Allocation A

$$\frac{\text{Direct Field Labor}}{\text{Total Direct Labor}} =$$

This allocation does not have an effect on the field or home office overhead rates. If it was applied to all accounts, the field and home office rates would be the same.

This percentage should be applied to expenses common to both field and home office direct labor in equal proportions, i.e., Indirect Salaries, Payroll Taxes, Group Insurance, Paid Leaves, Bonuses, Legal, Accounting, Personnel, etc.

Allocation B

$$\frac{\text{Allocated Supportive Service (Indirect Salaries x Alloc. A)}}{\text{Home Office Direct Labor + Indirect Salaries}}$$

This rate allocates to the field the “space costs” associated with supportive service labor. This rate should be applied to Rent, Supplies, Utilities, etc.

Data used in calculations:

Direct Field Office Labor	_____
Direct Home Office Labor	_____
Total Direct Labor	_____
Indirect Salaries-Admin.	_____
Indirect Salaries-Office	_____
Total Indirect Salaries	_____

The field rate is based upon an application of two different allocation rates to the consultants overhead cost categories.

The first allocation uses the relationship of direct field labor to total direct labor, described below:

The second allocation uses the relationship of indirect salaries and the allocation described above, to home office direct labor and indirect salaries, as described below:

Once these two calculations are made, the allocations are applied to the various line item accounts identified in a firm’s overhead schedule. The end result is a value, wrong, right, or indifferent, which is used for payment purposes.

Summary

The primary reason for using a standard methodology, is to approximate the costs and associated level of effort a field office operation might receive from the home or corporate office. And in doing so, be consistent in how WSDOT Audit treats each individual field office situation, to the extent possible.

The underlying theory is that a field office for the most part is self-sufficient. The firm or firms were hired because of their given expertise. Their mission is such that little if any input is probably required from the home operation. Therefore, the associated costs should be minimal for the operation to exist.